MICC

Annual Report
1983

MICC Investments Limited

Contents

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Secrétaire
Les Placements MICC, Limitée
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chambre 1600, Toronto, Ontario
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Financial Highlights

(000's omitted)	**1983**	1982	1981	1980	1979
Premiums Written	**$ 22,852**	$ 13,953	$ 22,711	$ 27,649	$ 40,846
Underwriting Revenue	**35,752**	40,738	38,394	36,144	25,346
Investment Income	**54,775**	42,340	30,370	28,970	29,661
Losses Incurred on Claims	**112,509**	76,220	46,954	42,553	28,200
Net Earnings (Loss)	**(85,445)**	(1,165)	12,446	12,701	15,667
Net Earnings (Loss) Available to Common Shareholders	**(97,189)**	(8,725)	6,473	7,089	9,762
Total Assets	**425,235**	446,096	385,706	331,929	339,758
Shareholders' Equity	**148,869**	236,848	200,025	173,669	176,023
Earnings (Loss) Per Common Share	**($8.55)** *	($0.77)	$0.78	$0.97	$1.62
Earnings (Loss) Per Common Share (Fully Diluted)	**($8.55)**	($0.77)	$0.78	$0.95	$1.45
Common Dividends Paid	**	$0.76	$0.76	$0.76	$0.72

*($6.63) before extraordinary item
**Stock Dividend – One Common Share for each Twenty Shares held.

Message to Shareholders

The overall Canadian economy improved in 1983, however, heavy claims losses were incurred in Alberta where the economy was still in a recessionary phase throughout the year. New business written increased 54 percent to $1.3 billion while claims losses increased 47 percent.

The loss before income taxes, unusual and extraordinary items for the year was $31.9 million compared to a loss of $10.3 million in 1982. In order to provide for continuing problems particularly in Alberta, the Company set-up a provision for future losses of $31.4 million and wrote-off $21.8 million of deferred income tax charges. The result is a net loss, after income taxes, unusual and extraordinary items, of $85.4 million, compared to a net loss of $1.2 million in 1982. After payment of preferred dividends, the net loss per common share was $8.55 compared to .77¢ in 1982.

The write-off of the deferred income tax charges does not affect our ability to defer the payment of future taxes. The amounts available as deductions for future tax purposes as at December 31, 1983, totals $125.6 million.

A stock dividend was paid on the common shares of record December 15, 1983 of one additional common share for each twenty shares held.

The strengthening of the balance sheet brought about by the write-off of deferred income taxes and by increasing the provision for future losses had the effect of creating a retained earnings deficit as at December 31, 1983 of $66.1 million. As dividends are only paid out of surplus, the payment of the preferred dividends on March 15, and March 31, 1984 was deferred. These dividends accrue until paid in cash. However, as the stated common share capital exceeds this deficit it is proposed that reclassification of the shareholders' equity will correct the problem. Accordingly, the shareholders will be asked to approve the reduction in stated capital of the common shares by approximately $90 million to eliminate the retained earnings deficit with the balance being established as contributed surplus. This action would permit the payment of preferred dividends provided the Company is otherwise in a position to resume them.

Total revenue was up 8.9 percent to $90.5 million, with 39 percent derived from underwriting revenue and 61 percent from investment income. Total assets at December 31, 1983 were $425.2 million down 4.7 percent from $446.1 million at December 31, 1982 reflecting the write-off of deferred income taxes. The investment portfolio held steady at $368.8 million compared to $368.4 million at December 31, 1982.

Equity in the earnings of Inter-City Gas Corporation in 1983 was $2,805,000. In December, 1983, The Mortgage Insurance Company of Canada acquired 1.5 million treasury common shares of Inter-City Gas Corporation at a price of $12.00 per share, as part of the agreement concluded in December 1982.

The Company instituted a target marketing concept at the beginning of 1983 and preliminary results are encouraging. The Company generated an underwriting profit margin of 55% on business written during 1983. The Company was able to attain its volume objectives and expenses were under budget. Mortgage insurance claim losses incurred on business written during the year were only $132,000 or 27% of earned premium.

Claim losses from prior years business, however, were very high, bring-

ing total claim losses to $112.5 million during the year. The comparable 1982 total was $76.2 million. Nearly 75 percent of mortgage insurance claims were in the provinces of Alberta and British Columbia, due primarily to unemployment in these two provinces and declining real estate prices in Alberta. A Company task force is actively dealing with the situation in Alberta and British Columbia. By year-end there was a considerable improvement in claim losses in British Columbia. Arrears and claims in all other provinces have declined dramatically.

Alberta legislation is unique in not offering lenders the covenant of the borrower as additional security on a mortgage. With the decline of real estate prices, in many cases to below the mortgage amount owing, many borrowers with the financial capacity to pay have walked away from their obligations. The Company is lobbying for changes in the legislation to provide a deterrent to such actions.

At year-end the Company commissioned an independent actuarial review of its insurance portfolio. Based on an analysis of historic claims trends relative to economic indicators and a forecast of future economic indicators it was estimated that the present value of future claims might exceed net deferred revenue by 31.4 million. Accordingly, the Company wrote-off deferred policy acquisition costs of $2.1 million and set-up a premium deficiency provision of $29.3 million.

1984 Outlook

Housing starts in 1984 are projected at 170,000 to 175,000 units, a 5 to 8 percent increase over the comparable 1983 total of 162,645 starts. Single-family starts are expected to increase about 12 per cent. House prices are expected to rise 5–10 percent during 1984, after increasing only slightly during 1983.

Mortgage loan approvals by lending institutions should moderate during 1984 and total about $20 billion compared to the record $26 billion recorded during 1983.

It is expected that we will be able to maintain our current levels of new business volumes.

During the year, Mr. George C. Hitchman retired from the Board of Directors and we would like to thank him for his contribution to the Company during the time he served as a director.

We would also like to thank our employees for their efforts on behalf of the Company.

R.G. Graham
President and Chief
Executive Officer

J.H. Coleman
Chairman

Consolidated Balance Sheet

As at December 31, 1983

Assets		1983 $000's	1982 $000's
Cash and Accounts Receivable	Cash	**1,128**	8,274
	Interest accrued and sundry receivables	**13,003**	15,527
	Premiums receivable	**1,808**	1,055
	Income taxes recoverable	**243**	692
	Due from reinsurers	**404**	332
		16,586	25,880
Real Estate		**37,630**	27,555
Investments	Treasury bills and other short-term securities – at cost	**—**	1,540
	Bonds and debentures – at amortized value (market value \$83,919,382; 1982 – \$64,464,000)	**79,372**	64,484
	Preferred stocks – at market value (cost \$72,699,462; 1982 – \$118,814,000)	**74,695**	111,449
	Common stocks – at market value (cost \$82,753,476; 1982 – \$79,507,000)	**87,390**	76,064
	Mortgages – at amortized value	**19,342**	26,777
	Investment in Inter-City Gas Corporation (note 11)	**107,995**	88,043
		368,794	368,357
Other Assets	Deferred income taxes (note 10)	**—**	21,752
	Capital expense – at amortized cost (note 6)	**1,502**	1,863
	Other	**723**	689
		2,225	24,304
		425,235	446,096

Liabilities		1983 $000's	1982 $000's
Accounts Payable	Bank loan	**2,650**	3,719
	Secured loan (note 3)	**4,300**	—
	Due to reinsurers	**97**	154
	Provision for claims	**114,620**	63,385
	Accounts payable and accrued liabilities	**920**	1,945
	Premium taxes payable	**293**	60
		122,880	69,263
Other Liabilities	Deferred revenue (note 4)	**150,153**	134,985
	Income debentures (note 5)	**3,333**	5,000
		153,486	139,985
		276,366	209,248

Shareholders' Equity			
Capital Stock (notes 6 and 8)	Issued and fully paid –		
	Preferred shares	**112,581**	121,486
	Common shares	**91,269**	87,342
		203,850	208,828
Contributed Surplus (note 7)		**4,500**	4,500
Retained Earnings (Deficit)		**(66,113)**	34,328
		142,237	247,656
Unrealized Gain (Loss) on Stocks		**6,632**	(10,808)
		148,869	236,848
		425,235	446,096

Signed on behalf of the board

Robert G. Graham
Director

David A. Rattee
Director

Consolidated Financial Statements

For the Year Ended December 31, 1983

Consolidated Statement of Earnings

		1983 $000's	1982 $000's
Revenue	Net premiums written	**22,852**	13,953
	Application fees	**1,491**	919
	Inspection service and appraisal fees	**151**	1,010
		24,494	15,882
	Decrease in deferred revenue	**11,258**	24,856
	Underwriting revenue	**35,752**	40,738
	Investment income –		
	Interest and amortization	**19,288**	18,023
	Dividends	**12,672**	16,958
	Equity in earnings of Inter-City Gas Corporation (note 11)	**2,805**	216
	Realized gain on disposal of investments	**20,098**	7,139
	Foreign exchange (loss) gain	**(88)**	4
		54,775	42,340
		90,527	83,078
Expenses	Insurance underwriting and policy issuance expenses	**3,143**	6,905
	Premium taxes	**627**	398
		3,770	7,303
	Less: (Increase) decrease in deferred expenses	**(2,092)**	1,590
		1,678	8,893
	Losses on claims provided for and incurred	**112,509**	76,220
	Other operating expenses	**7,925**	7,919
	Income debenture interest and amortization expense (note 5)	**284**	378
		122,396	93,410
Earnings (Loss) before Income Taxes, Unusual and Extraordinary Items		**(31,869)**	(10,332)
Provision for (Recovery of) Income Taxes			
	Current	**433**	100
	Deferred	**—**	(17,694)
		433	(17,594)
Earnings (Loss) before Unusual and Extraordinary Items		**(32,302)**	7,262
Unusual Item	Provision for premium deficiency (net of tax recovery – Nil; 1982 – $9,053,000) (note 9)	**(31,391)**	(8,427)
Net Earnings (Loss) for the Year before Extraordinary Item		**(63,693)**	(1,165)
Extraordinary Item	Deferred income tax charges of prior years written off (note 10)	**21,752**	—
Net Earnings (Loss) for the Year		**(85,445)**	(1,165)
	Weighted daily average number of common shares outstanding	**11,367,339**	11,312,849
	Loss per common share before extraordinary item (Exercise of warrants and conversion of shares would not dilute earnings per share)	**($6.63)**	($0.77)
	Loss per common share after extraordinary item	**($8.55)**	($0.77)

Consolidated Statement of Unrealized Gain (Loss) on Stocks

		1983 $000's	1982 $000's
Unrealized Gain (Loss) on Stocks – Beginning of Year	As previously reported	**(8,314)**	(24,358)
	Adjustment of prior year's investment income (note 2)	**(2,494)**	—
	As restated	**(10,808)**	(24,358)
	Unrealized gain on stocks for the year	**17,440**	13,550
Unrealized Gain (Loss) on Stocks – End of Year		**6,632**	(10,808)

Consolidated Statement of Retained Earnings

		1983 $000's	1982 $000's
Retained Earnings – Beginning of Year	As previously reported	**31,834**	51,036
	Adjustment of prior year's investment income (note 2)	**2,494**	—
	As restated	**34,328**	51,036
	Net earnings (loss) for the year	**(85,445)**	(1,165)
	Gain on redemption of preferred shares	**738**	484
		(50,379)	50,355
	Amortization of capital expenses (note 6)	**92**	281
	Cash dividends – Preferred	**11,744**	7,560
	– Common	**—**	8,186
	Stock dividend – Common (note 6)	**3,898**	—
		15,734	16,027
Retained Earnings (Deficit) – End of Year		**(66,113)**	34,328

Consolidated Statement of Changes in Financial Position

		1983 $000's	1982 $000's
Source of Funds	Common shares issued	**31**	1,164
	Warrants issued	**—**	4,500
	Preferred shares issued	**—**	36,000
	Increase in accounts payable	**53,617**	31,067
	Decrease (increase) in cash and accounts receivable	**9,294**	(9,043)
	Other	**209**	119
		63,151	63,807
Use of Funds	Operations – net loss for the year before extraordinary item	**63,693**	1,165
	(Increase) decrease in deferred revenue	**(15,168)**	2,480
	Income taxes deferred	**—**	26,750
	Depreciation and amortization	**(293)**	(293)
	Funds used in operations	**48,232**	30,102
	Increase (decrease) in real estate	**10,075**	(8,975)
	Purchase of fixed assets	**269**	214
	Repayment of income debentures	**1,667**	—
	Cash dividends –		
	Preferred shares	**11,744**	7,560
	Common shares	**—**	8,186
	Redemption of preferred shares	**8,167**	1,683
		80,154	38,770
Funds Available for (Required from) Investment		**(17,003)**	25,037
Investment Funds – Beginning of Year		**368,357**	329,770
		351,354	354,807
	Unrealized gain on stocks for the year	**17,440**	13,550
Investment Funds – End of Year		**368,794**	368,357

Notes to Consolidated Financial Statements

1. Accounting Policies

These financial statements are prepared in accordance with generally accepted accounting principles. The application of these principles is set out for the following significant items:

Principles of consolidation
The consolidated financial statements of MICC Investments Limited include the accounts of its subsidiaries. The company operates principally in the mortgage insurance business in Canada.

Premiums
Net premiums written are deferred and then taken into underwriting revenue as earned over the life of the related policies. The majority of policies have been written for twenty years. The rates or formulae under which premiums are earned relate to the amount of risk in each year of coverage as projected by management, based primarily on the past incidence of losses. The formulae under which premiums are earned are adjusted periodically in accordance with such estimates.

Application fees
Application fees received on insurance policies written are taken into income as received.

Underwriting and policy issuance expenses and premium taxes
Underwriting and policy issuance expenses and premium taxes in excess of application fees and commission income are deferred to the extent they are considered recoverable from future underwriting revenue and then amortized against premiums as the premiums are earned (see note 9).

Losses on claims provided for and incurred
Losses on claims represent the difference between the amounts claimed or estimated to be claimed and amounts recovered or estimated to be recoverable from the sale of real estate. Provisions for losses are made when it is considered probable that defaults by borrowers will result in claims. Provisions for losses on claims are updated regularly as information concerning claim amounts and real estate values becomes available.

Foreign exchange
Accounts in United States dollars have been translated in the following manner: monetary assets and liabilities have been translated at the rate in effect at the balance sheet date and non-monetary assets and liabilities have been translated at historical rates; earnings have been translated into Canadian dollars at the average rate prevailing through the year.

Investment income
(a) Treasury bills and other short-term securities – Interest is recorded as income as it accrues. Gains and losses are taken into income when realized on disposition.

(b) Bonds, debentures and mortgages – Interest is recorded as income as it accrues. The premium or discount between cost and maturity value is amortized into income over the period to maturity. A gain or loss on the sale of a bond, debenture or mortgage is deferred and then amortized over the term to maturity of the security sold.

(c) Stocks – Dividends are recorded as income on the ex-dividend date. Gains and losses on disposal of stocks are taken into income when realized. Investments in common shares of companies where a degree of significant influence is present are accounted for on an equity basis. Unrealized gains and losses on stocks, excluding investments accounted for on an equity basis, are accounted for in the "Consolidated Statement of Unrealized Gain (Loss) on Stocks", the balance of which is included in shareholders' equity.

Real estate
Real estate is carried in the accounts at its estimated realizable value after deduction of estimated real estate commissions and other sales related expenses.

2. Prior Period Adjustment

Realized gains for the year 1982 have been increased by $2,494,000 (22¢ per common share) to reflect additional gains not previously recognized in 1982 transactions. These amounts are recoveries of the difference between assigned values and book values of certain securities which arose on the aquisition of Insmor Mortgage Insurance. These securities were sold in 1982 and the recoveries were inadvertently not recognized. As a result the balance of retained earnings and unrealized loss on stocks as at December 31, 1982 have been adjusted by $2,494,000.

3. Secured Loan

The loan is secured by a mortgage on certain real estate property and is repayable on June 30, 1984.

4. Deferred Revenue

Deferred revenue consists principally of deferred premiums and a premium deficiency provision.

5. Income Debentures

Income debentures mature on March 31, 1985 with mandatory prepayment as to 50% on March 31, 1984. Interest payable at the rate of 7-1/2% per annum is not deductible in computing taxable income.

6. Capital Stock
The authorized, issued and fully paid capital stock of the company consists of:
Authorized –
3,951,600 (1982 – 3,951,600) first preferred shares issuable in series
Unlimited (1982 – unlimited) second preferred shares issuable in series
Unlimited (1982 – unlimited) common shares without par value.

	1983	1982
Issued and fully paid –		
497,749 (1982 – 611,559) 10% first preferred shares Series A	**$ 12,443,725**	$ 15,288,975
133,200 (1982 – 200,000) 8¾% first preferred shares Series B	**3,330,000**	5,000,000
755,350 (1982 – 837,950) 8⅝% first preferred shares Series C	**18,883,750**	20,948,750
13,320 (1982 – 80,000) 8% first preferred shares Series D	**1,332,000**	8,000,000
100,000 (1982 – 100,000) 8½% first preferred shares Series E	**10,000,000**	10,000,000
99,750 (1982 – 105,000) variable % first preferred shares Series F	**9,975,000**	10,500,000
342,000 (1982 – 360,000) 13% first preferred shares Series G	**34,200,000**	36,000,000
66,680 (1982 – nil) variable % first preferred shares Series H	**6,668,000**	—
629,941 (1982 – 629,941) 8% second preferred shares Series A	**15,748,525**	15,748,525
	112,581,000	121,486,250
11,367,339 (1982 – 10,822,115) common shares	**91,268,512**	87,341,660
	$203,849,512	$208,827,910

(a) Preferred shares

i) First preferred shares Series A
800,000 first preferred shares were originally issued at $25 per share as 10% cumulative redeemable first preferred shares Series A, of which 497,749 were outstanding at December 31, 1983.

The first preferred shares Series A are subject to mandatory sinking fund redemption at the issue price as to:

56,000 shares on March 15 in each of the years 1983 to 1986 inclusive; and

72,000 shares on March 15, 1987 and each year thereafter.

The company may increase any annual sinking fund by 24,000 shares. The company is entitled to anticipate sinking fund requirements by purchasing shares in the market at prices not exceeding the redemption price. The company may redeem shares not required for sinking fund purposes at a premium of 3%, declining annually to the issue price on March 15, 1986.

During 1983, the company acquired 113,810 preferred shares Series A for $2,734,000 to meet the 1983 sinking fund requirement and in part, to meet sinking fund requirements to March 15, 1984.

ii) First preferred shares Series B
200,000 first preferred shares were originally issued at $25 per share as 7-3/4% cumulative redeemable first preferred shares Series B, of which 133,200 were outstanding at December 31, 1983. Effective January 1, 1983 this dividend was increased to 8-3/4%.

The first preferred shares Series B are subject to mandatory sinking fund redemption at the issue price as to 66,800 shares on March 31, 1983 and 66,600 shares on March 31, 1984 and March 31, 1985.

The company is entitled to anticipate sinking fund requirements by purchasing shares in the market at prices not exceeding the redemption price. The company may redeem shares not required for sinking fund purposes at a premium of 2%, declining annually to the issue price on March 31, 1985. During 1983, the

company acquired 66,800 first preferred shares Series B for $1,670,000 to meet the 1983 sinking fund requirements.

iii) First preferred shares Series C
1,000,000 first preferred shares were originally issued at $25 per share as 8-5/8% cumulative first preferred shares Series C, of which 755,350 were outstanding at December 31, 1983.

The first preferred shares Series C are non-redeemable prior to March 31, 1983 and are subject to a purchase fund under which the company shall make all reasonable efforts to purchase 10,000 shares in each calender quarter, at a price not exceeding the issue price plus cost of purchase. This obligation is cumulative from quarter to quarter but to the extent not satisfied on December 31 of each calender year, is extinguished. Subsequent to March 30, 1983, the company may redeem shares not required for purchase fund purposes at a premium of 5%, declining annually thereafter to the issue price on April 1, 1988.

During 1983, the company acquired 82,600 first preferred shares Series C for $1,438,000 to meet 1983 purchase fund requirements.

iv) First preferred shares Series D
80,000 first preferred shares were originally issued at $100 per share as 8% cumulative redeemable and retractable first preferred shares Series D, of which 13,320 were outstanding at December 31, 1983.

The first preferred shares Series D were non-redeemable prior to June 30, 1983 and are subject to mandatory pro-rata sinking fund redemption at the issue price as to 4,000 shares on June 30, 1989 and on June 30 in each year thereafter up to and including June 30, 2008.

The first preferred shares Series D were retractable under certain circumstances or were convertible into floating rate first preferred shares at the holders' option on June 30, 1983. In accordance with the provision, 66,680 first preferred shares Series D were converted on a one-for-one basis into variable rate first preferred shares Series H, on June 30, 1983.

v) First preferred shares Series E
100,000 first preferred shares were originally issued at $100 per share as 8-1/2% cumulative redeemable and retractable first preferred shares Series E, all of which were outstanding at December 31, 1983.

The first preferred shares Series E are non-redeemable prior to December 31, 1983, and are subject to mandatory pro-rata sinking fund redemption at the issue price as to 5,000 shares on December 31, 1989 and on December 31 in each year thereafter up to and including December 31, 2008.

The first preferred shares Series E are retractable at the issue price at the holders' option on December 31, 1983. In accordance with this provision, 62,440 first preferred shares Series E were converted on a one-for-one basis into variable rate first preferred shares Series I, as at January 1, 1984.

vi) First preferred shares Series F
105,000 first preferred shares were originally issued at $100 per share as variable % cumulative redeemable and retractable first preferred shares Series F, of which 99,750 were outstanding at December 31, 1983. The annual rate of dividends payable on the first preferred shares Series F is one-half of the prime rate plus one and three-quarters percent.

The first preferred shares Series F are subject to mandatory pro-rata sinking fund redemption at the issue price as to 5,250 shares on September 30, 1983 and September 30 in each year thereafter up to and including September 30, 1990. All shares outstanding on September 30, 1991 will be redeemed on that date.

The first preferred shares Series F are retractable under certain circumstances at the issue price at the holders' option on September 30, 1986. During 1983, the company acquired 5,250 preferred shares Series F for $525,000 to meet the 1983 sinking fund requirement.

vii) First preferred shares Series G
360,000 first preferred shares were originally issued at $100 per share as 13% cumulative redeemable first preferred shares Series G, of which 342,000 were outstanding at December 31, 1983.

The first preferred shares Series G are subject to mandatory sinking fund redemption at the issue price as to 18,000 shares on December 31, 1983 and on December 31 in each year thereafter up to and including December 31, 1986. All shares outstanding on December 31, 1987 shall be redeemed on that date.

The company is entitled to anticipate sinking fund requirements by purchasing shares in the market at prices not exceeding the redemption price. Other than for sinking fund purposes, the corporation may not redeem the first preferred shares Series G prior to December 31, 1987. During 1983, the company acquired 18,000 preferred shares Series G for $1,800,000 to meet the 1983 sinking fund requirement.

viii) First preferred shares Series H
66,680 first preferred shares were issued during the year at $100 per share as variable % cumulative redeemable and retractable first preferred shares Series H, all of which were outstanding at December 31, 1983. The annual rate of dividends payable on the first preferred shares Series H is one-half of the prime rate plus two percent.

The first preferred shares Series H are subject to mandatory pro-rata sinking fund redemption at the issue price as to 3,334 shares on June 30, 1989 and June 30 in each year thereafter up to and including June 30, 2008.

The first preferred shares Series H are retractable at the issue price at the holders' option on June 30, 1988.

ix) Second preferred shares Series A
800,000 second preferred shares were originally issued at $25 per share as 8% cumulative redeemable convertible second preferred shares Series A, of which 629,941 were outstanding at December 31, 1983.

The second preferred shares Series A are non-redeemable prior to December 31, 1983 and are subject to a purchase fund under which the company shall make all reasonable efforts to purchase in each calendar quarter, commencing with the calendar quarter ending March 31, 1984, 0.75% of the difference between the number of second preferred shares Series A originally issued and the number of shares converted into common shares prior to such calendar quarter at a price not exceeding the issue price plus costs of purchase. This obligation is cumulative from quarter to quarter, but to the extent not satisfied on December 31 of each calendar year, is extinguished. Subsequent to December 31, 1983 the company may redeem shares not required for purchase fund purposes at a premium of 5%, declining annually thereafter to the issue price on December 31, 1988.

The second preferred shares Series A are convertible on or before December 31, 1988 into fully paid common shares, at the holders' option, at a conversion price of $10.370 per common share on the basis of approximately 2.410 common shares for each second preferred share held.

x) Issuance costs
Costs incurred in connection with the issuance of preferred shares have been capitalized and are being amortized against retained earnings over the estimated term of the shares on a weighted average basis. As at December 31, 1983, unamortized capital expenses relating to preferred shares amounted to approximately $1,502,000.

(b) Common shares
Common shares issued during 1983 were as follows:
i) 541,199 common shares were issued on December 31, 1983 as a common stock dividend for total consideration of $3,897,410.

ii) 4,025 common shares were issued for a cash consideration of $31,194 under the Employee Stock Purchase Plan.

During the year, an option was granted to an officer and director of the company to acquire a maximum of 100,000 of the corporation's common shares at a price of $7.20 per share. The option expires on May 15, 1993. Also, an option remains outstanding to an officer and director of the company to acquire a maximum of 20,000 of the corporation's common shares at a price of $10 per share. The option expires on November 30, 1986.

7. Contributed Surplus
During 1982, 3,000,000 common share purchase warrants were issued for a cash consideration of $4,500,000. Each of these warrants entitles the holder to purchase one common share at $12 and expires December 16, 1987.

8. Employee Stock Purchase Plan
Under the Employee Stock Purchase Plan, certain employees may purchase up to 300 common shares in January of each year at 90% of market price. Funds are loaned to the employee who repays this amount, together with interest thereon at 3% per annum, over a 12-month period.

9. Premium Deficiency Provision
As a result of falling property values in Alberta during 1983, the company experienced a high level of losses on claims incurred. It is now estimated that the present value of future losses (using a discount rate of 10-1/4%) on policies of insurance issued prior to December 31, 1983 may exceed deferred premiums. This estimate has been made in the light of all relevant known factors.

Accordingly, a premium deficiency provision of $29,300,000 together with the write-off of deferred policy acquisition costs of $2,091,000 have been charged against earnings in the current year. It is the company's intention to monitor this situation on a quarterly basis during 1984 and to make further increases or reductions in the provision as may be necessary.

10. Deferred Income Taxes – Extraordinary Item
In prior years the company recorded income tax deferred charges of approximately $21,752,000. As set out in note 9 above, the company has experienced a high level of losses in 1983, particularly in the last part of the year. As a result, there is no reasonable assurance that the tax effect of unclaimed reserves will entirely be realized within the next several years; accordingly, the company has removed from its consolidated balance sheet the income tax deferred charge. This is disclosed as an extraordinary item in the statement of earnings.

The unrecorded amounts available as deductions for tax purposes as at December 31, 1983 totalled $125,600,000.

11. Inter-City Gas Corporation
(a) The company's subsidiary acquired an additional 1.5 million common shares of Inter-City Gas Corporation (ICG) at a price of $12 per share on December 15, 1983, pursuant to the acquisition agreement of December 16, 1982. This acquisition increases the Company's investment to 28% of the outstanding voting shares of ICG.

(b) The subsidiary's excess cost of the shares acquired over the underlying net book value of the investment at December 15, 1983 was approximately $2,332,000. This excess has been attributed to the proved oil and gas reserves of ICG. The equity in earnings of ICG is being reduced by an amount sufficient to amortize the total excess cost over the estimated productive life of these reserves, which in the aggregate is approximately 20 years. As at December 31, 1983, the unamortized excess cost for the Company and its subsidiary amounted to approximately $9,570,000.

(c) The company has 3 million warrants entitling it to purchase 3 million common shares of ICG at a price of $12 per share. These warrants expire on December 16, 1987.

(d) As at December 31, 1983 this investment comprises:

	1983 $000's	1982 $000's
Common shares including equity in earnings since acquisition (market value $58,843,000; 1982 – $44,972,000)	**63,263**	43,181
Preferred shares (market value $380,000; 1982 – $482,000)	**482**	612
Warrants for purchase of common shares	**8,250**	8,250
14% note receivable	**36,000**	36,000
	107,995	88,043

12. Related Party Transactions
Central Trust Company is a related party as a result of its ownership of shares of the company and three of the company's directors are directors and/or senior officers of Central Trust Company. Central Trust Company and its affiliates, from time to time, insure mortgage loans with The Mortgage Insurance Company of Canada, a wholly-owned subsidiary. The policies of insurance are issued under standard terms and conditions and the premiums written in 1983 from such policies represented less than 5% of the total premiums written for the year. Losses on claims incurred on this business and on business written in prior years are not considered material.

Inter-City Gas Corporation is a related party as a result of the transactions referred to in note 11. In addition to those transactions, the company has reimbursed ICG for certain expenses incurred on the company's behalf.

Reports

Auditors' Report

We have examined the consolidated balance sheet of MICC Investments Limited as at December 31, 1983 and the consolidated statements of earnings, retained earnings, unrealized gain (loss) on stocks and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1983 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand

Chartered Accountants
Toronto, Ontario
February 10, 1984

Management Report

Company management is charged with the responsibility for preparing the preceeding financial statements and ensuring that all information in this annual report is consistent with those statements and is a true and fair presentation of the facts. This responsibility includes selecting appropriate accounting principles and making judgements and estimates in accordance with generally accepted accounting principles in Canada.

Ultimate responsibility for the financial statements rests with the Board of Directors. An Audit Committee of non-management directors is appointed by the Board to review the financial statements in detail with management and to report to the directors prior to their approval of the financial statements. The Directors have approved a code of ethics for all directors and employees to prevent conflicts of interest and unauthorized disclosures of financial information.

Shareholders' auditors examine the financial statements in detail and meet separately with both the Audit Committee and management to review their findings. The auditors report directly to the shareholders and their report appears above.

R.G. Graham
President and Chief
Executive Officer

J.D. Hewitt
Executive
Vice-President
February 10, 1984

Transfer Agents

First preferred shares
National Trust Company
Limited

Second preferred shares
The Canada Trust Company

Common shares
The Canada Trust Company

Registrars

First preferred shares
National Trust Company
Limited

Second preferred shares
The Canada Trust Company

Common shares
The Canada Permanent
Trust Company

Auditors

Coopers & Lybrand

Review of Operations

Canada's economic recovery was steady during 1983. Interest rates declined gradually during the first half of 1983, levelling off during the later part of the year, and the rate of inflation fell below 5 percent compared with an average of nearly 11 percent in 1982. Unemployment decreased from 12.7 percent at December 31, 1982 to 11.1 percent at December 31, 1983.

All provinces participated in this recovery; but recovery in the Alberta economy has been much slower. Housing starts rose 29 percent to 162,645 units during 1983 with all provinces experiencing an increase in activity except Alberta.

Mortgage activity broke all records in 1983. Mortgage loan approvals by lending institutions totalled $26 billion, double the previous year's total. This strength reflects both the availability of mortgage funds and a strong demand created by a buoyant resale housing market and the refinancing of short term mortgages obtained when interest rates were much higher. The chartered banks increased their position as the major provider of mortgage funds.

The strength of the housing market in Canada assisted MICC in achieving its new business target for 1983. New commitments issued by the company totalled $1.3 billion during 1983, which was 64 percent above the 1982 total of $0.8 billion.

Homeownership
First and Second Mortgages

Homeownership housing is the largest segment of MICC's activity, accounting for 90 percent of all mortgage commitments issued during 1983. Commitment volume totalled $1,182 million during 1983, 70.6 percent above the 1982 total of $693 million. Existing housing accounted for 57.9 percent of total homeownership activity compared with 50 percent in 1982.

The volume of new business, as measured by the potential premium totalled $17.0 million during the year, an increase of 51.3 percent over the comparable 1982 total of $11.2 million. Potential premiums are the premiums which could be forthcoming on all business where a commitment to insure is advanced during the year. As at December 31, 1983, there were $7.3 million in potential premiums outstanding.

Premiums written during 1983 amounted to $14.7 million, an increase of 94.8 percent over the comparable 1982 total of $7.6 million.

At the end of 1983, 437,410 loans were on repayment, and approximately 4,990 or 1.14 percent were reported by lenders as being at least three months in arrears. The comparable 1982 default ratio was 1.28 percent. The provinces of Newfoundland, Alberta, and British Columbia have more cases in default than was the case a year ago, while other provinces have fewer defaults.

Claims losses totalled $91.1 million, 63.4 percent above the 1982 total of $55.8 million. A reserve to cover potential losses is established for each case as soon as it is determined that a claim may be anticipated. To assist in determining the loss, it is necessary to obtain one or more current appraisals, to obtain a report from the lender on the amount owing on the mortgage and to make an

estimate of the disposal costs of the real estate. In addition, the date of claim settlement is estimated to ensure that unpaid accrued interest costs can be properly reflected, as well as taxes, legal, and maintenance costs.

Nearly all of the increase in claims losses is due to increased claims in Alberta and British Columbia. Losses in Ontario and Quebec have declined dramatically. During the year, a task force was formed to review the Alberta and British Columbia claims situation, to determine the extent of our exposure, and how the company could minimize its losses. The task force concluded that losses could be reduced if there was more co-operation and dialogue among homeowners, lenders, and MICC. Additional staff was needed to accomplish this, and were either hired locally or transferred from other branches.

Claims from British Columbia started to decline in the fourth quarter and are now at tolerable levels but Alberta claims remained high and by year-end were representing over 75 percent of all new claims.

Alberta legislation is unique in not offering lenders the covenant of the borrower as additional security on a mortgage. With the decline in real estate prices in many cases to below the mortgage amount owing, many borrowers with the financial capacity to pay, have walked away from their obligations. The Company is lobbying for changes in the legislation to provide a deterrent to such actions.

Approximately 20 percent of homeownership mortgage insurance claim settlements during 1983 involved the acquisition of real estate by MICC. The balance were either cases where the lender sold the property (43%) and MICC paid the difference between the net sale proceeds and the claim amount, or where MICC elected to settle the claim through payment under Option ''B'' (37%). Under this latter form of settlement, the lender receives 25 percent of the approved claim amount (20 percent on rental, commercial and industrial properties). The lender retains ownership of the real estate.

During the year, 642 homeownership properties were acquired having a net realizable value of $31.6 million compared with 482 properties valued at $19.9 million during 1982. A total of 559 properties were sold for a consideration of $23.7 million during 1983. This compared with sales of $27.7 million during 1982.

At the end of 1983, homeownership real estate holdings totalled $21.8 million, compared with $13.8 million at the end of 1982. At December 31, 1983, an additional 63 properties valued at $3.5 million had been sold but the sales had not yet closed.

Real estate is held on the books at estimated net realizable value which is estimated market value less estimated disposal costs (real estate commission, legal fees, appraisal, etc.). On acquisition, each property is reviewed to determine if it should be held or sold. Company policy generally is to sell acquired real estate as soon as possible.

The mortgage portfolio stood at $17.1 million, at the end of 1983 compared with $23.5 million at the end of 1982.

Income Properties
First and Second Mortgages
Rental
Rental activity accounted for about 6 percent of total activity during 1983. Commitments to insure totalled $75 million during 1983, 7.4 percent below the comparable 1982 total of $81 million. Premiums written totalled $0.8 million, compared with the 1982 total of $1.8 million.

There were 12,761 insured rental loans on repayment at the end of 1982. About 217 loans were reported at least one month in arrears, a default ratio of 1.70 percent. The comparable 1982 default ratio was 2.09 percent.

Claim losses declined slightly in 1983 to $7.1 million compared with $7.2 million in 1982.

During the year, one rental property was acquired having a net realizable value of $338,000 compared with 12 properties valued at $1.8 million during 1982. During 1983, a total of 7 properties were sold for a consideration of $0.8 million. This compares with 32 properties valued at $5 million sold in 1982. At the end of 1983, rental property holdings totalled $6.2 million compared with $6.6 million at the end of 1982.

Commercial and Industrial
Commercial and industrial activity accounted for 4 percent of total activity during 1983. Commitments to insure totalled $50 million during 1983, compared with $22 million in 1982. Premiums written during 1983 totalled $0.8 million, about equal to the previous years total.

Of 5,563 loans on repayment at the end of 1983, 218 were reported at least one month in arrears or 3.92 percent. The comparable 1982 default ratio was 3.55 percent.

Claims losses totalled $9.1 million in 1983, 18.9 percent above the comparable 1982 total of $7.7 million.

During the year, 9 properties were acquired having a net realizable value of $5.2 million compared with 4 properties valued at $1.3 million during 1982. A total of 6 properties were sold for a consideration of $2.4 million. At the end of 1983, real estate holdings totalled $9.7 million compared with $6.9 million at the end of 1982.

Other Programs
Surety Bonding
Concentration during the year was on the administration and servicing of existing accounts. Only 5 new accounts with approved programs of bonding totalling $24.5 million were established during 1983. This compares with the previous years total of 28 new accounts with approved programs of bonding totalling $227.5 million.

During 1983, bonds totalling $334 million were approved, a decrease of 14 percent from the comparable 1982 total of $388 million. Gross premiums written in 1983 totalled $2.5 million, up slightly from the 1982 total of $2.4 million. This stability is due primarily to our concentration on major accounts and "custom" services. As a result of our sales effort, a number of municipalities are now accepting bonds for MICC accounts in lieu of other security.

Premiums net of reinsurance amounted to $1.6 million during 1983, compared with $1.4 million during 1982.

Claims losses net of reinsurance recoveries totalled $0.6 million during 1983, compared with $1.7 million during 1982.

The 1983 results of the Surety Department were satisfactory given the operating conditions for contractors and developers in Canada. After only four years of activity, MICC surety operations are a well established and integral part of the surety industry in Canada.

Condominium Deposit
This program is only offered in Ontario and insures the deposits of condominium buyers before a condominium has been registered. Our insurance is used when the deposits exceed the $20,000 limit insured by the Ontario New Home Warranty Program.

During 1983, MICC insured over $20 million in deposits for a premium of $160,734 compared with $30 million in deposits for a premium of $250,633 in 1982. There were no losses under this program during either year.

Lease Guarantee Insurance
MICC has maintained restrictive underwriting guidelines for this program, with only 3 lease guarantee commitments being issued in 1983 with an aggregate insured rent of $4.0 million. The comparable 1982 figures were 16 lease guarantee commitments with an aggregate insured rent of $14.2 million. Premiums written totalled $244,332 in 1983, 40.6 percent below the previous years total of $411,436.

Lease guarantee claims losses totalled $1.0 million during 1983, 23.5 percent below the comparable 1982 total of $1.3 million.

New Home Warranty
Premiums earned under the Ontario and Quebec New Home Warranty Programs amounted to $2.1 million in 1983, 66.3 percent above the $1.3 million recorded during 1982. Losses incurred under this program totalled $1.9 million in 1983, compared with $1.1 million during 1982.

Investments
Performance of our investment portfolio was satisfactory in 1983. Due to realized capital gains, total pre-tax net income was $54.8 million compared to $42.3 million in 1982. At year-end, the market value of the portfolio was 101.5 percent of book value compared to 95.6 percent in 1982. The Company continued to emphasize high quality and liquidity. The average life of the bond portfolio increased to 8.07 years with the purchase of Government of Canada ten year bonds. The asset allocation shows a significant switch from preferred shares to bonds given the Company's emphasis on pre-tax income as well as improved relative values. Investments in common and convertible equities rose to 43.7 percent from 33.8 percent, reflecting a longer term positive outlook for the stock market. Dividend income at $12.7 million was less than the $17.0 million achieved in 1982 due to the significant reduction in the preferred portfolio and the sale of many of the high dividend paying utility stocks. Interest and amortization income was $19.3 million versus $18.0 million.

Capital gains realized through the sale of investments and options in 1983 increased to $20.1 million compared with $4.6 million in 1982.

Equity in the earnings of Inter-City Gas Corporation was $2.8 million compared to $0.2 million in 1982.

Asset Classification

of The Mortgage Insurance Company of Canada at Book Value (000's omitted)

		Dec. 31	% of Total	
		1983	1983	1982
	Cash	$ 4,488	1.4%	3.4%
	Money Market	180	0.1	0.5
	Federal Government (Under 3 years)	21,341	6.9	8.4
Cash and Liquid Assets		26,009	8.4	12.3
Bonds (Other)		96,418	30.9	22.2
	Retractable Preferred	13,529	4.3	12.7
	Sinking Fund Preferred	12,788	4.1	8.0
	Conventional Preferred	26,748	8.6	11.0
Preferred		53,065	17.0	31.7
	Convertible Preferred	22,026	7.1	5.8
	Common Stock	114,105	36.6	28.0
Common & Convertible		136,131	43.7	33.8
	Total Equity	189,196	60.7	65.5
Total Portfolio		$311,623	100.0	100.0

Programs

First & Second Mortgages		Potential Premiums 1983 ($000's)	Potential Premiums 1982 ($000's)	Premiums Written 1983 ($000's)	Premiums Written 1982 ($000's)
	Homeownership	**$16,950**	$11,204	**$14,715**	$ 7,554
	Rental	**1,313**	1,219	**840**	1,760
	Commercial/Industrial	**911**	498	**813**	786
	Unallocated Reserves	**—**	—	**—**	—
	Total	**19,174**	12,921	**16,368**	10,100
Other Programs	Surety	**2,493**	2,402	**1,676**	1,363
	Lease Guarantee	**123**	418	**244**	411
	New Home Warranty	**4,305**	1,727	**4,305**	1,727
	Condominium Deposit	**161**	250	**161**	250
	U.S.A. Reinsurance	**—**	—	**98**	102
	Total	**7,082**	4,798	**6,484**	3,853
Grand Total		**$26,256**	$17,718	**$22,852**	$13,953

First & Second Mortgages		Claims Losses 1983 ($000's)	Claims Losses 1982 ($000's)	Default Ratios 1983 %	Default Ratios 1982 %
	Homeownership	**$91,112**	$55,771	**1.14**	1.28
	Rental	**7,066**	7,155	**1.70**	2.09
	Commercial/Industrial	**9,118**	7,667	**3.92**	3.55
	Unallocated Reserves	**1,800**	1,800	**—**	—
	Total	**109,096**	72,393	**1.19**	1.33
Other Programs	Surety	**569**	1,734	**n.a.**	n.a.
	Lease Guarantee	**974**	1,273	**n.a.**	n.a.
	New Home Warranty	**1,870**	1,058	**n.a.**	n.a.
	Condominium Deposit	**—**	—	**n.a.**	n.a.
	U.S.A. Reinsurance	**—**	—	**n.a.**	n.a.
	Total	**3,413**	4,074	**n.a.**	n.a.
Grand Total		**$112,509**	$76,467	**n.a.**	n.a.

n.a. – not applicable

Real Estate (000's omitted)**	Single family* No.	$	Rental No.	$	Commercial/Industrial No.	$	Total No.	$
Activity								
Held at December 31, 1982	395	$13,838	9	$6,587	12	$6,937	416	$27,362
Acquired during 1983	642	31,620	1	338	9	5,207	652	37,165
Sales and adjustments during 1983	559	23,686	7	775	8	2,436	574	26,897
Held at December 31, 1983	478	21,772	3	6,150	13	9,708	494	37,630
Holdings as at December 31, 1983								
Newfoundland	5	135	—	—	—	—	5	135
Prince Edward Island	—	—	—	—	—	—	—	—
Nova Scotia	4	105	—	—	—	—	4	105
New Brunswick	—	—	—	—	—	—	—	—
Quebec	79	2,702	2	1,574	3	482	84	4,758
Ontario	82	2,645	—	—	10	9,226	92	11,871
Manitoba	15	423	—	—	—	—	15	423
Saskatchewan	8	294	—	—	—	—	8	294
Alberta	232	12,734	—	—	—	—	232	12,734
British Columbia	53	2,734	1	4,576	—	—	54	7,310
Total	478	$21,772	3	$6,150	13	$9,708	494	$37,630

*Includes condominium (strata title) units.
**Represents Book Value

Historical Financial Analysis
Issued Commitments to insure
(Canadian Business, data are gross $ millions)

		1983	1982	1981	1980	1979
First and Second mortgage insurance programs – Total		**1,307**	796	2,145	3,608	5,575
	Homeownership loans	**1,182**	693	1,781	3,219	4,943
	Rental loans	**75**	81	255	149	300
	Commercial/industrial loans	**50**	22	109	240	332
	Lease guarantee	**4**	14	12	9	33
Insurance in Force	(Canadian mortgage insurance) At year end ($ billions)	**17.7**	18.9	20.0	19.8	19.2
Average Values	Homeownership loans (high ratio)	**61,517**	60,369	61,807	52,905	44,327
	New construction (per unit)	**70,422**	76,279	75,493	64,920	54,230
	Existing homes (per unit)	**55,827**	48,812	46,261	43,887	38,117
	Rental projects (per loan)	**194,259**	597,740	845,858	268,411	171,359
	Commercial/industrial (per loan)	**391,273**	297,531	459,936	386,870	246,319
GDS and TDS Ratios	Gross debt service ratio*	**22.8%**	24.2%	24.9%	24.4%	24.1%
	Total debt service ratio**	**28.7%**	30.2%	31.1%	30.4%	30.5%
Capital and Reserves ($000's)	Policyholders reserves	**152,518**	161,016	186,798	195,742	195,106
	Capital	**105,659**	209,002	208,058	218,343	217,223
	Total	**258,177**	370,018	394,856	414,085	412,329
Active Lender Clients		**200**	194	255	331	350

*GDS – (Gross debt service ratio) the percentage of gross income used for mortgage payments and property taxes.

**TDS – (Total debt service ratio) the percentage of gross income used for mortgage payments, property taxes and all other instalment debts.

Board of Directors

The Board of Directors

Michel F. Belanger
Chairman of the Board,
President and Chief
Executive Officer
The National Bank of Canada
Montreal, Quebec

Ron C. Brown
Partner
Blake, Cassels & Graydon
Toronto, Ontario

H. Reuben Cohen, Q.C.
Barrister and Solicitor
Moncton, New Brunswick

John H. Coleman
Chairman of the Board
MICC Investments Limited
Toronto, Ontario

Harold Corrigan
Vice-President
Corporate Relations
Alcan Aluminum Limited
Montreal, Quebec

Stanley Davison
Vice-Chairman
Bank of Montreal
Calgary, Alberta

Stuart E. Eagles
President
Canadian Pacific
Enterprises Limited
Calgary, Alberta

Leonard Ellen
Chairman
Leonard Ellen Canada Inc.
Montreal, Quebec

Jock K. Finlayson
Chairman
The Royal Insurance
Company of Canada
Toronto, Ontario

Robert G. Graham
President and Chief
Executive Officer
MICC Investments Limited
Toronto, Ontario
and Inter-City
Gas Corporation
Winnipeg, Manitoba

Gordon P. Osler
Chairman
Stanton Pipes Limited
Toronto, Ontario

David Rattee
Executive Vice-President
and Chief General Manager
Continental Bank of Canada
Toronto, Ontario

Henry B. Rhude, Q.C.
Chairman and Chief
Executive Officer
Central Trust Company
Halifax, Nova Scotia

Reginald T. Ryan
Deputy Chairman
MICC Investments Limited
Toronto, Ontario

Ralph T. Scurfield
Chairman
Nu-West Group Limited
Calgary, Alberta

Marshall G. Smith
Executive Vice-President,
Investments
The Great West Life
Assurance Company
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G.D. Sutton
President
Canadian Enterprise
Development Corporation
Limited
Toronto, Ontario

Alan Sweatman, Q.C.
Partner
Thompson, Dorfman and
Sweatman
Winnipeg, Manitoba

G.J. van den Berg
Company Director
Toronto, Ontario

B.G. Willis
Executive Vice-President
Richardson Greenshields
of Canada Limited
Toronto, Ontario

As of February 22, 1984

Executive Officers

MICC Investments Limited

John H. Coleman
Chairman

Reginald T. Ryan
Deputy Chairman

Robert G. Graham
President and
Chief Executive Officer

James D. Hewitt
Executive Vice-President
and Chief Operating Officer

J. Donald Bergeron
Vice-President,
Legal Counsel and Secretary

The Mortgage Insurance Company of Canada

John H. Coleman
Chairman

Reginal T. Ryan
Deputy Chairman

Robert G. Graham
President and
Chief Executive Officer

James D. Hewitt
Executive Vice-President
and Chief Operating Officer

Alan D. Munro
Vice-President, Marketing

Clair E. Shoemaker
Vice-President and
Chief Underwriter

Michael L. Stein
Vice-President,
Claims and Real Estate

J. Donald Bergeron
Vice-President
Legal Counsel and
Secretary

Organization

Head Office

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C. Connick, Manager, Accounting

Administration & Personnel
M.E. Keene, Manager

Audit
C. Martinez, Manager

Branch Operations
K. Webb, Director

Business Development
G.J. Pennie, Manager

Collections
C. Hale, Manager

Data Processing
H. Hallworth, Director

Investments
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J.G. McLean, Manager
C. Ross, Assistant Manager
M. McGill, Marketing and Underwriting Officer (B.C.)